

# DENMARK

After winning a third term last November, the centre-right government has announced plans to set up a tax commission with the specific purpose of proposing a new tax structure that lowers the taxation of labour income including lower marginal taxes. The commission will submit its report in 2009. Meanwhile, 2007 saw the implementation of a new municipal structure in Denmark (as of January 1<sup>st</sup> 2007)– and as a result the tax structure changed, albeit without much significance to the taxpayers. Of greater importance were changes in the corporate tax and vehicle registration fee. Also 2007 saw the political agreement on a reduction in income tax, which will take affect in 2008 and 2009.

## 1.

The municipal set-up in Denmark had remained virtually unchanged for more than 30 years, but with the beginning of 2007, major changes came in to effect: Close to 300 mainly smaller municipalities were replaced by 98 greater municipalities with larger responsibilities; and the 14 counties were replaced by five regions with fewer responsibilities (primarily hospitals) and no power to levy taxes.

As a consequence, the tax structure was changed to reflect the new reality: Instead of both a municipal income tax and a county income tax (which were set individually in the municipalities and counties), the county income tax has been replaced by an eight percent nation-wide “health tax” (on income), which make up most of the revenue for the new regions. As a consequence, municipal taxes were allowed to increase to make up the (varying) differences between the new health and the old county tax rates. Also, the local taxes on property (land value tax and tax on owner occupied property) now go exclusively to the municipalities instead of being divided between municipalities and regions.

For the individual taxpayer, however, the municipal shake-up has made little if any difference. Many taxpayers, of course, have experienced higher or lower taxes as old municipalities (with varying tax rates) were merged into larger entities, but it has been a zero-sum game, and most changes have been rather minute.

## 2.

In June 2007 a couple of changes were made to the Danish corporation tax, most of which were retroactive, taking effect as of January 1<sup>st</sup>. The most noticeable change was the reduction of the corporate tax rate from 28 percent to 25 percent. The lower nominal rate was financed through a general broadening of the tax base through tougher rules on the deduction of interest payments before tax, as well as tougher rules on the depreciation of buildings and other long-lasting assets. Especially the



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Changed municipal structure  
changes the tax structure

*Number of municipalities went  
from down from 300 to 98.*

*14 counties replaced with 4 re-  
gions without power to tax*

*local taxes on property now go  
exclusively to the municipalities*

Corporate tax: lower rates,  
broader base

*corporate tax reduced from 28 to  
25 %*

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tougher rules on the deduction of interest payments before taxes were a response to the growing number of take-overs financed through loans (rather than shares). The rules apply only to companies with net interest payments exceeding DKK 20 million, and basically take the form of a cap on the maximum amount deductible related to the company's total assets and EBIT.

As a consequence of the lower corporate tax rate, some minor changes were made to the personal income taxes on dividends – in an effort to prevent any corporate tax reduction being past on to shareholders / owners.

## 3.

Another important change in the Danish tax system came in the form of changes to the registration fees for automobiles. Denmark is known for its massive registration fees on cars which – together with a VAT of 25 percent (applied to the total price including registration fee) will triple the cost of most new cars. As a consequence, Denmark has one of the oldest vehicle parks in the EU.

In April 2007, Parliament agreed on what amounts to minor changes to the current system, reducing the registration fee slightly – especially for cars with good mileage and good safety record – while at the same time closing a couple of loopholes. More specifically, the changes – to ordinary cars – were:

- Lower registration fees in general:  
It used to be that the registration fee was 105 percent of the cars value till DKK 65,900 (€ 8,838) and 180 percent of any value above that amount. Now, the 180 percent is only paid of any value above DKK 74,000 (€ 9,924), reducing the registration fee on virtually all new cars by DKK 6,075 (€ 815).
- Higher registration fee for “gas-guzzlers” (and vice-versa)  
The registration fee is reduced by DKK 4,000 (€ 536) per km/l above 16 km/l for gas engines and 18 km/l for diesel engines; and increased by DKK 1,000 (€ 134) per km/l below that number.
- Changes to the safety bonuses (affects the base on which the registration fee is calculated)
  - Base is reduced by DKK 2,500 (€ 335) if the car has ESP
  - Base is reduced by DKK 1,280 (€ 172) for airbags no. 3-6 (each), instead of hitherto for airbags no. 1-4 .
  - Deduction in base for abs-brakes is reduced from DKK 4,165 to DKK 3,750 (€ 558.54 to € 503)
  - Base is reduced by DKK 2,000 (€ 268) for cars with five stars (maximum) in the EuroNCAP-test
  - No longer any deduction in base for inside adjustable rear view mirror or high-mounted stop light

*tougher rules on deduction of interest payment and depreciation of assets*

*minor changes to personal income taxes on dividends*

**Reduced registration fee for cars**

*Denmark is well known for its massive registration fee on cars which triple the cost of most new cars.*

*Minor changes have been introduced to the system*


*Those changes are financed by reducing some economic incentives which were obtained through reduced registration fees*

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The above-mentioned changes were financed by reducing the economic incentives to lower the registration fee by rebuilding regular (larger) cars, so that they may be registered as “campers” (installing a mini-kitchen and makeshift “beds”) or “cargo-vans” (removing the back-seat and leveling the “cargo-area”). Both types of vehicles still enjoy lower registration fees, but the difference has been narrowed (in the case of “cargo-vans”) and the interpretation of the rules has been tightened to minimize abuse (in the case of “campers”)

## 4.

Finally, it should be mentioned that a majority in parliament has agreed on lowering the income tax in two steps (2008 and 2009). The changes will not affect the very high top marginal tax rate of 63 percent, which (in 2007) applies to any income above DKK 355,652 (€ 47,682). What will happen is thus:

- an increase in the personal allowance (for all taxpayers)
- an increase in the earned income tax credit (a small percentage of total work-income up to a maximum – applies only to employed persons)
- an increase in the basic allowance for the medium tax bracket (so that the basic allowance for the medium and top tax brackets will be identical from 2009). 

Reduced income tax in 2008-2009

*top marginal rate remains at 63%*



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